

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (10 points) After World War II, some people felt the only way for a country to develop was to get outside aid. Explain their reasoning.
- 2) (10 points each) For each of the following parts of the “Washington Consensus,” explain what is meant by the phrase and explain why it is important for development.
  - A) Fiscal discipline.
  - B) Privatization
  - C) Deregulation
- 3) (25 points) The “Washington Consensus” says that there should be “liberalization of foreign direct investment.” What does that mean? Why do they feel that? However, Jagdish Bhagwati is against that because financial flows can occur very quickly due to “contagion.” What does that mean and why would that mean FDI should not be liberalized? Which do you agree with? Why?
- 4) (25 points) Use the data below to derive the Lorenz Curve. Explain how you found the points and how you found the value for the 5<sup>th</sup> quintile. Given your diagram, what do you estimate the Gini Coefficient to be? Explain your logic.

Quintile	1	2	3	4	5
% of income	5%	10%	15%	20%	?

- 5) (10 points) What is bad about too large of a Gini Coefficient? Explain your logic.